

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-07 AID-05 CEA-01
CIAE-00 COME-00 EPG-02 DODE-00 EB-07 FPC-01 H-02
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04
USIA-15 OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-10
PA-02 PRS-01 /120 W
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R 242111Z JUN 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 3932
INFO AMEMBASSY PARIS

UNCLAS SECTION 01 OF 02 OTTAWA 05573

USOECD

O.E. 11652: N/A
TAGS: ENRG, CA
SUBJECT: ENERGY: INCREASES IN OIL AND GAS PRICES ANNOUNCED

REF: OTTAWA 5337 (NOTAL)

1. MINISTER OF ENERGY, MINES AND RESOURCES ALASTAIR GILLESPIE ANNOUNCED HIGHER PRICES FOR DOMESTIC OIL AND GAS AND EXPORTED GAS IN HOUSE OF COMMONS ON JUNE 23. CRUDE OIL PRICE WILL INCREASE BY DOLS 1.00 PER BARREL ON JULY 1, AND IN THREE SUBSEQUENT DOLS 1.00 INSTALLMENTS AT SIX-MONTH INTERVALS, A TOTAL INCREASE OF DOLS 4.00 OVER THE NEXT TWO YEARS. PRICE OF NATURAL GAS DELIVERED TO TORONTO WILL RISE BY DOLS 0.175/MCF ON AUGUST 1 AND AN ADDITIONAL DOLS 0.17/MCF ON FEBRUARY 1, 1978; FURTHER ADJUSTMENTS WILL BE DISCUSSED BETWEEN FEDERAL AND ALBERTA GOVERNMENTS IN SECOND QUARTER OF 1978. EXPORT GAS PRICE WILL INCREASE TO U.S. DOLS 2.16. ANNOUNCEMENT DID NOT SPECIFY EFFECTIVE DATE AND MADE NO REFERENCE TO FUTURE NEB REVIEW OF EXPORT GAS PRICE BUT EXTAFF ASSURES US
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THAT OMISSIONS REFLECT NO CHANGE IN POLICY WHICH REMAINS AS STATED IN AIDE MEMOIRE REPORTED REFTTEL. ANNOUNCEMENT ALSO DEALS WITH MEASURES TO STIMULATE NEW SUPPLIES AND CONSERVATION:

2. TEXT OF ANNOUNCEMENT FOLLOWS:

BEGIN TEXT. I AM TODAY ANNOUNCING HIGHER PRICES FOR CANADIAN GAS AND OIL AND EXPORTED NATURAL GAS. THESE CHANGES ARE FULLY CONSISTENT WITH OUR TWO-PRONGED ENERGY STRATEGY FOR CANADA - TO INCREASE ENERGY SUPPLIES ON THE ONE HAND AND TO DECREASE GROWTH IN DEMAND ON THE OTHER. THESE CHANGES ALSO REFLECT THE MAJORITY VIEW OF THE PROVINCIAL ENERGY MINISTERS AS STATED AT THE FEDERAL-PROVINCIAL CONFERENCE OF EARLY MAY, AND SUBSEQUENT CONSULTATIONS DURING THE INTERVENING WEEKS.

THE MAIN ELEMENTS OF THIS ANNOUNCEMENT ARE:

- AMOUNT AND TIMING OF NEXT OIL AND NATURAL GAS PRICE
- CONDITIONS GOVERNING FUTURE PRICE INCREASES
- INCREASES IN EXPORT PRICE OF NATURAL GAS
- UNDERTAKINGS BY THE PRODUCING PROVINCES TO ENCOURAGE NEW SUPPLIES
- UNDERTAKINGS BY THE FEDERAL GOVERNMENT TO ENCOURAGE NEW SUPPLIES
- DECISION BY THE FEDERAL GOVERNMENT TO OFFER A NATIONAL HOME RE-INSULATION PROGRAM.

THESE UNDERTAKINGS, WITH THE EXCEPTION OF THE INSULATION PROGRAM, ARE SET FORTH IN THE EXCHANGE OF LETTERS BETWEEN MYSELF, AND THE ALBERTA ENERGY MINISTER, HON. DONALD GETTY.

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AS OF JULY 1, 1977, THE CANADIAN CRUDE OIL PRICE WILL INCREASE BY DOLS 1 PER BARREL, AND THERE WILL BE THREE SUBSEQUENT DOLS 1 PER BARREL INCREASES AT SIX-MONTH INTERVALS. OIL PRODUCT MARKETERS ARE AGAIN BEING ASKED TO DELAY PRICE INCREASES FOR GASOLINE, FUEL OIL AND OTHER PRODUCTS FOR 60 DAYS, SO THE PRICE OF GASOLINE ON AUGUST 30, 1977 WILL RISE BY JUST OVER 3 CENTS A GALLON.

THE PRICE OF NATURAL GAS DELIVERED TO TORONTO WILL RISE BY 17.5 CENTS PER THOUSAND CUBIC FEET (MCF) AS OF AUGUST 1, 1977. AN INCREASE OF 17 CENTS PER MCF WILL TAKE PLACE ON FEBRUARY 1, 1978, AND FURTHER ADJUSTMENTS IN NATURAL GAS PRICES WILL BE DISCUSSED BETWEEN THE FEDERAL AND ALBERTA GOVERNMENTS IN THE SECOND QUARTER OF 1978.

I AM ALSO CONFIRMING THAT WHEN PRODUCTION FROM THE SYNCRUDE CANADA LTD., OIL SANDS PLANT COMMENCES IN 1978, RETURNS TO THE PRODUCER WILL REFLECT THE PREVAILING INTERNATIONAL CRUDE OIL PRICE.

THE SCHEDULE OF PRICE INCREASES FOR CRUDE OIL REFLECTS

AGREEMENT BETWEEN THE GOVERNMENTS OF CANADA AND THE PRODUCING PROVINCES. THE SITUATION WILL BE REVIEWED AFTER THE FOURTH INCREASE (JAN. 1979) OR BEFORE THAT TIME IF CANADIAN PRICES ARE LIKELY TO EXCEED THE U.S. AVERAGE PRICES, INCLUDING IMPORTED OIL AT CHICAGO, OR THE PRICE OF CRUDE OIL IN THE PERSIAN GULF; OR IF THERE ARE EXTRAORDINARY HAPPENINGS IN THE WORLD MARKET. A NEW AGREEMENT HAS BEEN REACHED BETWEEN THE FEDERAL GOVERNMENT AND THE GOVERNMENT OF ALBERTA, UNDER WHICH PRICE INCREASES OF NATURAL GAS, IN TERMS OF ENERGY EQUIVALENT QUANTITIES, WILL BE LINKED TO THE OIL PRICE INCREASES SET FOR JULY 1, 1977 AND JANUARY 1, 1978.

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THE NATURAL GAS PRICE INCREASES WILL COME INTO EFFECT ONE MONTH LATER. THE DELAY WILL ENABLE EASTERN CANADIAN NATURAL GAS DISTRIBUTORS TO MORE READILY ADJUST TO THE 60-DAY DELAY IN PETROLEUM PRODUCT PRICE INCREASES AND MAINTAIN AN ORDERLY MARKET.

THE TIMING OF THE INCREASE IN NATURAL GAS PRICES TO RESIDENTIAL AND COMMERCIAL USERS WILL BE DETERMINED BY PROVINCIAL REGULATORY BODIES.

A NATIONAL ENERGY BOARD REPORT OF APRIL, 1977, CONCERNING THE PRICING OF NATURAL GAS BEING EXPORTED UNDER EXISTING LICENCES, RECOMMENDED AN EXPORT BORDER PRICE OF (U.S.) DOLS 2.25 PER THOUSAND CUBIC FEET (MCF). THE BOARD CALCULATED A SUBSTITUTION VALUE FOR THE EXPORTED GAS OF U.S. DOLS 2.16 OR CDN. DOLS 2.28.

THE GOVERNMENT REVIEWED THE BOARD'S RECOMMENDATION AND DECIDED THAT THE CONCEPT OF SUBSTITUTION VALUE OR REPLACEMENT COST WAS APPROPRIATE. CONSEQUENTLY, THE NEW PRICE HAS BEEN SET AT U.S. DOLS 2.16 PER MCF.

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PROVISION OF CANADIAN OIL TO CANADIAN CONSUMERS WILL INCREASINGLY DEPEND ON THE DEVELOPMENT OF SYNTHETIC AND HEAVY OILS FROM WESTERN CANADA, AS SUPPLIES OF LIGHT CRUDE OIL DECLINE. IT IS TO ENCOURAGE DEVELOPMENT OF THESE AND OTHER HIGH-COST RESOURCES THAT THE FEDERAL GOVERNMENT HAS ESTABLISHED THE POLICY OF INCREASING OIL PRICES TOWARD INTERNATIONAL PRICES, AND KEEPING NATURAL GAS PRICES IN AN APPROPRIATE COMPETITIVE RELATIONSHIP.

THE PRICING OF OIL FROM THE SYNCRUDE CANADA LTD. PLANT WAS ONE ASPECT OF THE AGREEMENT SIGNED IN WINNIPEG IN FEBRUARY 1975. THE FEDERAL GOVERNMENT GAVE AN ASSURANCE THAT INTERNATIONAL CRUDE OIL PRICES WOULD BE AVAILABLE FOR SYNCRUDE PRODUCTION.

IN THIS CONNECTION THE GOVERNMENT INTENDS TO INTRODUCE AMENDMENTS TO THE PETROLEUM ADMINISTRATION ACT IN ORDER TO PROVIDE COMPENSATION TO REFINERS AND OTHER USERS OF THE SYNCRUDE OIL. CALCULATION OF RATES WILL BE SIMILAR TO THAT EMPLOYED IN CALCULATING COMPENSATION PAYMENTS ON IMPORTED OIL.

IT IS ESTIMATED THAT FOR THE THREE YEARS 1978-80, TOTAL COMPENSATION FOR SYNCRUDE PRODUCTION WILL AMOUNT TO AROUND DOLS 125 MILLION.

UNDER THE WINNIPEG AGREEMENT, THE FEDERAL GOVERNMENT ACQUIRED A 15 PERCENT EQUITY INTEREST IN SYNCRUDE AND THE GOVERNMENTS OF ALBERTA AND ONTARIO 10 PERCENT AND 5 PERCENT RESPECTIVELY. THE OTHER PARTICIPANTS ARE GULF OIL CANADA, IMPERIAL OIL AND CANADA-CITIES SERVICE.

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SCHEDULED TO COMMENCE IN JUNE 1978 AT A LEVEL OF 32,000 BARRELS PER DAY, RISING TO 108,000 BARRELS PER DAY BY JUNE 1980, WITH A POSSIBLE MAXIMUM OF 128,000 BARRELS.

THE NEW PRICES SHOULD HAVE A SIGNIFICANT IMPACT ON ENCOURAGING PRODUCTION. EXISTING INCENTIVES, HIGHER CASH FLOWS AND PROVINCIAL SUPPORT SHOULD HELP TO BRING ON OUR NEW TAR SANDS PLANTS AND THE DEVELOPMENT OF THE SUBSTANTIAL DEPOSITS OF HEAVY OILS. THE PRICE INCREASES ARE ALSO SUPPORTIVE OF THE SECOND THRUST OF ENERGY POLICY - CONSERVATION. A MAJOR HOME RE-INSULATION PROGRAM WILL BE INTRODUCED TO COMPLEMENT AND EXTEND EXISTING CONSERVATION MEASURES. END TEXT

3. ATTACHED TO ANNOUNCEMENT ARE A NUMBER OF SUPPORTING BACKGROUND DOCUMENTS. COPIES BEING POUCHED TO STATE (BLAKEMORE-EUR/CAN AND BARBIAN-EB/FSE), FEA (SANDS).
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Message Attributes

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